

CHAPTER 3
CORPORATION FUND AND INVESTMENTS

[Prior to 8/18/93, Product Development Corporation, Iowa[636] Ch 3]

[Prior to 4/9/97, Product Development Corporation, Iowa[271] Ch 3]

727—3.1(15E) The fund. The Iowa seed capital corporation fund is the fund created by the Act to provide financial aid to eligible applicants as defined in the Act and these rules. The money in the fund is derived from general fund appropriation and other income derived from the corporation's investments and the exercise of authority granted to the corporation. The funds of the corporation shall be used for the purposes stated in the Act and these rules.

727—3.2(15E) Reversion of funds. At the beginning of each fiscal year, the board shall determine an appropriate reversion of funds to the state by reviewing the corporation's operating budget, the funds available in the Iowa seed capital corporation fund, and the current state appropriation and other expected income.

727—3.3(15E) Operational definitions. In addition to the definitions stated in 727—1.2(15E), the following terms as used in connection with the Iowa seed capital corporation fund have the meanings indicated.

"Applicant" means any person who brings a project before the corporation for consideration for funding.

"Bonds" means negotiable bonds which may be issued by the corporation.

"Eligible applicant" means an individual, proprietorship, partnership, corporation, business trust or any other legal entity that satisfies the criteria contained in the Act and these rules relating to recipient eligibility and who is developing or marketing a specific invention or product.

"Fund" means the Iowa seed capital corporation fund authorized by Iowa Code section 15E.89.

"Iowa presence" means that the applicant's business or proposed business shall maintain its primary business and operating facilities within the borders of the state of Iowa; and the location restriction shall be committed to in the venture agreement.

"Notes" means notes which may be issued by the corporation.

"Project" means the business proposed by an applicant for financial assistance pursuant to the Act and these rules.

"Venture agreement" means the legal binding contract entered into between the corporation and the person who is the recipient of financial aid for a venture as defined in the Act. The venture agreement shall contain all terms and conditions relating to financial aid by the corporation; shall outline the corporation's rights from or in the invention, product or proceeds from the product or invention in exchange for granting financial aid; shall outline the rights of the corporation and the responsibilities of the recipient in the event of a business failure or a breach of the contract; and may contain any other conditions mutually agreed upon.

727—3.4(15E) Eligibility.

3.4(1) Residence of the applicant. The applicant need not be a permanent resident of the state of Iowa; however, the business or proposed business shall be required to maintain an Iowa presence and to sign a contractual assurance to increase or maintain employment in Iowa and generate tax revenues which shall remain in Iowa.

3.4(2) Eligible ventures. Projects eligible for financial aid shall be for the development of specific products or inventions which are to be developed and produced in Iowa, have the benefit of increasing or maintaining Iowa employment, and from which tax revenues shall remain in Iowa.

3.4(3) Type of business or company. Any business or company, whether existing or new, is eligible to apply for financial aid provided it meets the criteria of the Act and these rules.

3.4(4) Criteria for funding consideration. The criteria used by the corporation to evaluate projects as to suitability for funding under the corporation's program shall include:

- a. The existence of a well-defined product or process which is ready or nearly ready for commercial introduction and which reflects a promising or proprietary innovation or technology.
- b. The existence of a realistic market opportunity.
- c. The existence of a qualified management team experienced with the product and knowledgeable about its intended customers.
- d. The potential for business growth, job creation, wealth creation, and significant community impact.
- e. The existence of a clear, rational business plan demonstrating how the project will succeed and grow.
- f. Preference may be given to projects proposed by persons who are Iowa business owners or citizens at the time of application, and to projects involving technologies developed within Iowa.

727—3.5(15E) Review of projects.

3.5(1) *Initial project review.* Any person seeking financial assistance may initiate review of a proposed project by the corporation at any time by calling the corporation office, by arranging an office appointment, or by submitting a written summary of the proposed project to the corporation.

3.5(2) *Results of initial project review.* Based on the information received, the corporation's staff shall advise the applicant of the potential suitability of the proposed project for corporation participation.

3.5(3) *Review by board.* Any person that is advised by staff that the person's proposed project is not suitable for corporation funding may apply for direct review of the proposed project by the board by forwarding a written request for such review to the corporation accompanied by payment of a nonrefundable application fee of the greater of \$100 or 0.25 percent of the amount of funding requested from the corporation.

3.5(4) *Business plan.* If the corporation's staff determines that the proposed project meets the basic program criteria for funding consideration contained in the Act and these rules, the applicant shall be asked to submit a comprehensive business plan for the proposed project. This business plan should include sufficient information and documentation to describe:

- a. The business's proposed product or process.
- b. The market(s) into which the product or process will be sold.
- c. The capabilities and experience of the proposed management team.
- d. How the business will be organized, structured, and operated.
- e. The financial projections of the business for at least a three-year period.
- f. Any other information as may be requested by the staff.

3.5(5) *Due diligence.* Once an acceptable business plan is submitted, the corporation's staff shall conduct a due diligence investigation of the various aspects of the plan to independently verify that it is reasonable, viable, and supportive of an investment by the corporation.

727—3.6(15E) Investment recommendation and resolution.

3.6(1) *Investment recommendation.* If the corporation's staff determines that a proposed project represents a reasonable investment opportunity based on the corporation's investment criteria, an investment recommendation shall be presented to the board. Payment of an application fee of the greater of \$100 or 0.25 percent of the requested investment amount is required at this time.

3.6(2) *Board resolution authorizing investment.* Upon review of the staff's due diligence findings and investment recommendation, the board may authorize, by resolution, an investment in the project. An investment may be made in the form of a royalty agreement, subordinated debentures, common or preferred stock, or some other form agreeable to the parties.

3.6(3) *Preparation and execution of documents.* Once authorized by the board, an investment shall be consummated through the preparation and execution of appropriate legal documents. The president shall execute these documents on behalf of the corporation.

727—3.7(15E) Monitoring of investments.

3.7(1) *Monitoring activities.* The corporation's president and staff shall monitor its venture investments as deemed appropriate or as assigned by the board. These activities may include, but not be limited to:

- a. Reviewing the company's periodic financial reports and audit reports.
- b. Attending meetings of the company's shareholders or board of directors.
- c. Making site visits to the company's offices and facilities.

The corporation's president and staff shall make appropriate regular reports to the board regarding these monitoring activities.

3.7(2) *Relocation of a business.* In the event a business that has received funding from the corporation decides to relocate its offices or facilities outside Iowa, the president shall report that decision to the board. If the relocation takes place, the corporation may retain its financial interest in the company only upon a finding by the board that continued financial participation in the company is consistent with the objectives and purposes of the corporation, and necessary to protect the financial interests of the corporation.

727—3.8(15E) Right to audit. The corporation shall have at all times the right to audit the records of the recipient of financial aid from the fund to ensure that financial aid is being used in accordance with the venture agreement. The corporation or a designee acting under the direction of the corporation may exercise this right.

These rules are intended to implement Iowa Code sections 15E.81 to 15E.94.

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